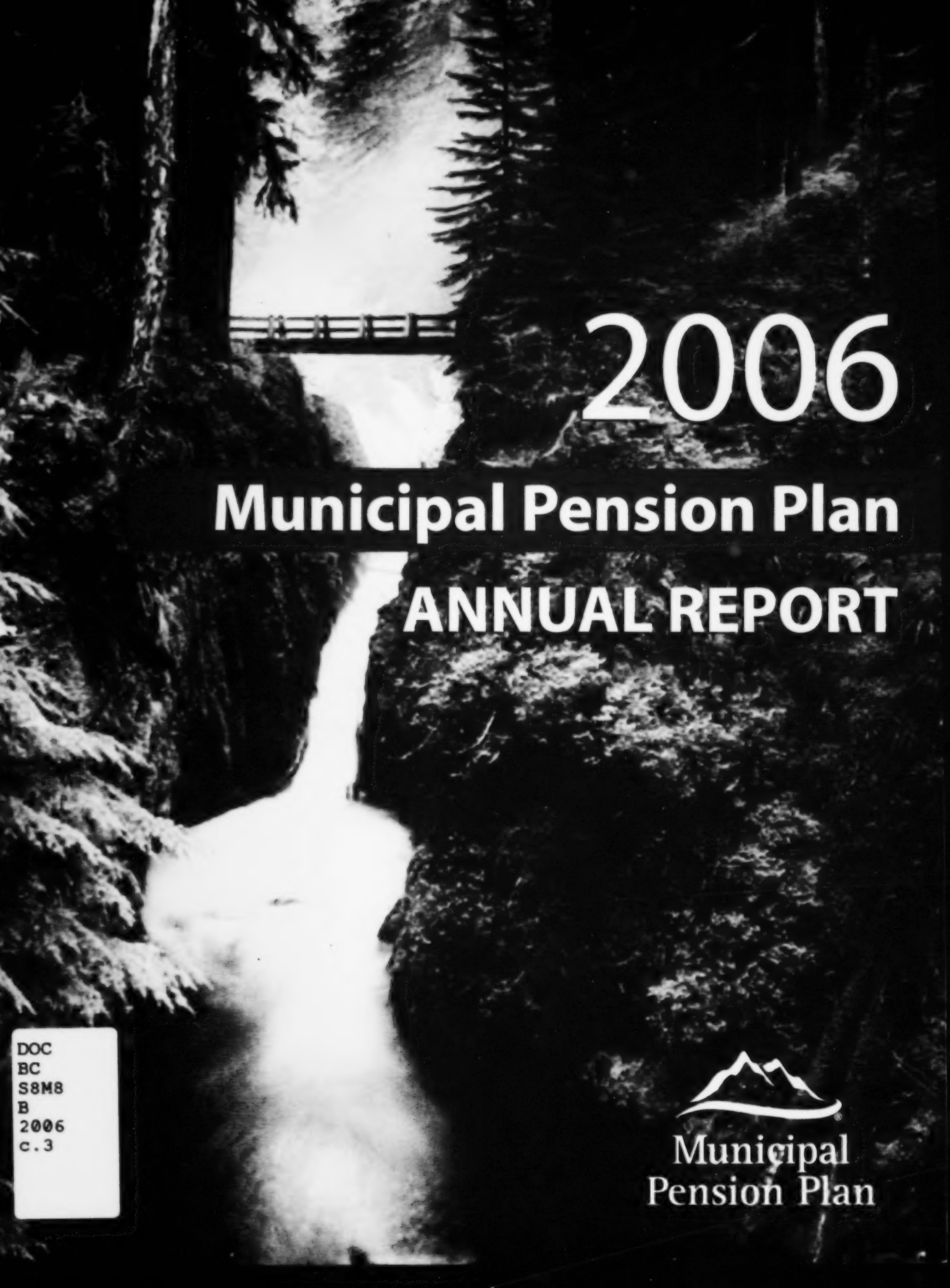

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Municipal Pension Plan

2006

Annual Report

January 1, 2006 to December 31, 2006

Municipal
Pension Plan

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Reg. T.M. Municipal Pension Board of Trustees

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SUSTAINABILITY

THE MUNICIPAL PENSION BOARD OF TRUSTEES IS PLEASED TO present the annual report for the year ending December 31, 2006.

We manage your Pension Plan, administering benefits and investing over 23 billion in assets on behalf of our 220,022 plan members. The British Columbia Pension Corporation is our administrative agent, and the British Columbia Investment Management Corporation is our investment management agent.

The *2006 Municipal Pension Plan Annual Report* is our opportunity to address the changes and improvements that took place over the past year, and to report on the financial results of the Plan.

Much of 2006 was focused on sustainability—ensuring a balance between support for post-retirement group benefits and inflation protection, within the funding constraints faced by the Board. For the last two years, Trustees have been considering how to deal with the challenges of rising costs and limited funding for post-retirement group benefits.

Throughout these considerations, the Board focused on three priorities:

1. provision of pension benefits;
2. indexation of pensions subject to available funds; and
3. access to post-retirement group benefits.

The Trustees spent more than two years deliberating and more than a year consulting with retirees and active plan members, as well as other stakeholders. Plan members were clear that they valued the group benefits provided and would rather pay more to maintain them than see coverage reduced.

With this input in mind at its September 18, 2006 meeting, the Board made a number of decisions regarding post-retirement group benefits. These include:

- Medical Services Plan subsidies will be maintained for both retirees and spouses/dependants.
- The Plan will provide extended health and dental benefit subsidies for retirees only.
- Coverage for spouses and dependants becomes available at full premium cost effective August 1, 2007.

SUSTAINABILITY

- There is no change to extended health coverage.
- There will be a cap of $2,000 per person per year for dental claims beginning January 1, 2007. This limit will be reviewed in three years.

Although this issue dominated Board activities in 2006, there were significant achievements in other areas of the Plan as well.

We determined that statutory holiday and vacation pay is pensionable for less than full-time employees. There are exceptions. When an employee takes a lump-sum payment in lieu of vacation entitlement accrued in a prior year that was not taken, this payment is not pensionable. Payment in lieu of accumulated vacation entitlement at termination is not pensionable unless there is a corresponding period of vacation leave (time off) prior to the termination date.

Through a process of consultation and discussions with Canada Revenue Agency, the Board was able to preserve and maintain the ability of plan members who participate in a Special Agreement approved before January 1, 2007 to convert their accumulated SA balance to pension at retirement. The ruling by Canada Revenue Agency does not apply to new Special Agreements that may be approved by the Trustees after January 1, 2007.

The Board negotiated a more cost-effective administrative fee structure with the Plan's group benefits provider, Pacific Blue Cross. This helps control the overall costs of post-retirement group benefits.

One of the highlights of 2006 was the Municipal Pension Plan's Fifth Annual General Meeting on October 14 at the Michael J. Fox Theatre in Burnaby. Over 400 active and retired plan members attended the meeting, making it the largest in the Plan's history, and one of the largest meetings of this type held in British Columbia.

The Board is committed to providing full and timely information to all members. In 2006, we made further improvements to the website to make it easier to find frequently sought information.

Impact of Indexing

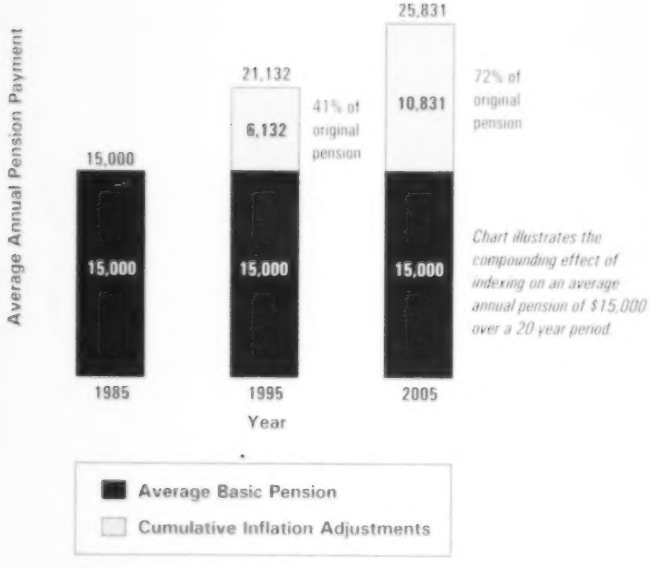


Chart illustrates the compounding effect of indexing on an average annual pension of $15,000 over a 20 year period.

MUNICIPAL PENSION BOARD OF TRUSTEES

December 31, 2006

TRUSTEES	ALTERNATES	
Kenneth Bayne, Chair	Keith Ewart	Excluded Employees
Sharon Saunders, Vice-Chair	Andrea Wiebe	British Columbia Nurses' Union
Harold Heyming	Todd Sweet	British Columbia Federation of Police Officers and British Columbia Professional Fire Fighters' Association
Hugh Finlayson	Terry Killough	British Columbia Public School Employers' Association
Maria Wahl	Patti Price	Canadian Union of Public Employees, British Columbia Division
Brian Northam	Brian McConville	Council of Joint Organizations and Unions
Bruce Kennedy	Adam Charania	Provincial Government
Louise Mercer	John Davison	Provincial Government
John Johnston	Patrick Doyle	Health Employers Association of British Columbia
Lyn Kocher	Louise Simard	Health Employers Association of British Columbia
Dennis Blatchford	Vacant	Health Sciences Association of British Columbia
Brendan Dick	Tilly Hiscock	Hospital Employees' Union
Gary Johnson	Donisa Bernardo	Municipal Employees' Pension Committee
Steven Polak	Fran Macdonnell	Municipal Employees' Pension Committee (retired members)
Vacant	Richard Taylor	Union of British Columbia Municipalities
Frank Leonard	Robert Hobson	Union of British Columbia Municipalities

PARTNERS, TRUSTEES AND AGENTS

THE MUNICIPAL PENSION PLAN IS GOVERNED BY REPRESENTATIVES of both plan members and plan employers. These representatives make up the Board of Trustees. The Trustees are appointed by the **Plan Partners** (the Province of British Columbia, the Union of British Columbia Municipalities, the Municipal Employees' Pension Committee) and other stakeholders. This shared management is called joint trusteeship. More information on joint trusteeship is on the Plan website at **mpp.pensionsbc.ca**.

The Municipal Pension Board of Trustees is responsible for the management of the Pension Plan, including asset investment and plan administration. The Board looks after the best interests of the Plan to ensure the funds are sufficient to pay pensions into the future. They decide on investment policies and make amendments to the Pension Plan Rules. A Plan Rule change that results in a contribution rate change must be approved by the Plan Partners. If the actuary determines that it's necessary to increase contribution rates, the Trustees must increase employer and member contribution rates equally.

The British Columbia Pension Corporation provides benefit administration services as an agent of the Board of Trustees. The corporation enrols members, collects contributions, processes benefits and issues pension payments.

The British Columbia Investment Management Corporation (bcIMC) is an investment management corporation based in Victoria, BC. With over $81 billion in assets under administration with a global exposure, and supported by industry-leading investment expertise, bcIMC offers fund management services for all major asset classes, including currency and infrastructure investment. The bcIMC's clients include pension plans, provincial government, public trusts, and insurance funds. The bcIMC provides investment management services as an agent of the Board of Trustees.

COMMITTEES

THE MUNICIPAL PENSION BOARD OF TRUSTEES HAS AN APPEALS Panel and six standing committees: Benefits, Communications and Education, Employer Eligibility, Governance, Investment, and Audit.

APPEALS PANEL

The Appeals Panel was established in accordance with the Joint Trust Agreement and has full jurisdiction to consider and decide all appeals. However, in accordance with the Joint Trust Agreement, the Panel must confirm, vary or reverse the decision of the Plan Administrative Agent that is being appealed. The Panel does not have the power to change the Plan Rules.

BENEFITS COMMITTEE

This committee reviews the Plan Rules as they affect benefit entitlements and makes recommendations for changes as required. The committee monitors and reports to the Board on projected post-retirement group benefits costs and makes recommendations annually for the extended health and dental premium rates and the subsidies to be provided, in accordance with Post-Retirement Group Benefit Rules. In addition, the committee reviews Post-Retirement Group Benefit Rules and makes recommendations for changes to plan design, coverage levels, and cost structure as required.

COMMUNICATIONS AND EDUCATION COMMITTEE

The Communications and Education Committee makes recommendations to the Board about communications policy and strategy. The committee co-ordinates plans for the Annual General Meeting, reviews Plan communications materials, and has delegated authority from the Board to approve some communications materials. The Committee also recommends and co-ordinates trustee orientation, education and learning initiatives.

EMPLOYER ELIGIBILITY COMMITTEE

The Employer Eligibility Committee makes recommendations to the Board about employer applications to participate in the Plan and the policy and procedures for employer applications and withdrawals and other matters related to employer membership.

COMMITTEES

GOVERNANCE COMMITTEE

The Governance Committee considers and makes recommendations to the Board of Trustees regarding the Board's governance policy and procedures, including confidentiality, conflict of interest, trustee performance and self-assessment, risk management and strategic planning. The Governance Committee co-ordinates nominations for Chair, Vice-chair, the Appeals Panel and all Board committees. The committee also reviews and monitors contracts and service agreements with major service providers.

INVESTMENT COMMITTEE

The Investment Committee reviews and makes recommendations to the Board about investments recommended by bcIMC and the Statement of Investment Policies and Procedures. The committee also co-ordinates periodic asset allocation studies, as a basis for investment policy.

AUDIT COMMITTEE

The mandate of the Audit Committee is to act on behalf of, and to assist the boards to provide for:

- a timely and cost-effective system of accounting and reporting,
- financial statements conforming with generally accepted accounting principles,
- an independent audit of the financial statements, and
- an annual report with audited financial statements.

The committee will accomplish its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of reporting, internal controls, and compliance,
- monitoring and reporting on the independence and performance of the auditors,
- monitoring and reporting on risk management as it affects financial reporting,
- recommending the selection and compensation of external auditors, and
- addressing any matter referred to the committee by one or more of the four boards.

Membership on the committee includes two nominees from each of the boards of the College, Municipal, Public Service, and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two Trustees who understand generally accepted accounting principles (GAAP), internal controls, and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

MEMBER SERVICES & COMMUNICATIONS

THE MUNICIPAL PENSION PLAN HAS A STRONG TEAM OF professionals devoted to providing quality, cost-effective services to plan members. Staff made impressive gains in service improvements in 2006 that are reflected in the satisfaction rating that plan members gave the Municipal Pension Plan.

The Municipal Pension Plan hosts retirement seminars for plan members. During 2006, a total of 5,378 plan members and guests attended retirement seminars. The seminars explain the basics of the Pension Plan and cover the retirement process from application to receiving pension payments. Past attendees have reported that the retirement seminars are very helpful in planning for retirement. Members who want to learn more about the retirement process can download the presentation from our website at **mpp.pensionsbc.ca**.

We regularly conduct surveys of plan members to evaluate the quality of our services and to identify areas for improvement. The surveys show active and retired members give the Pension Corporation high satisfaction ratings for service. In addition, regular plan employer surveys also show high satisfaction.

Communicating with plan members is a priority of the Municipal Pension Board of Trustees. Guidelines have been developed to ensure that plan information is easy to understand and easy to use. By practicing plain language principles and focus testing many of our products, we continue to improve the effectiveness of our communications products.

New communications materials are regularly published, and online products and services are continually being improved. We produce the annual *Member's Benefit Statement*, which provides active plan members with updated information about their plan benefits, service, and contributions. We also produce forms, bulletins, a yearly *Report to Members*, PensionFacts—a series of fact sheets—and a newsletter for retired members. Our website offers excellent pension plan information and online estimators at **mpp.pensionsbc.ca**.

The Municipal Pension Plan annual general meeting (AGM) provides members with an opportunity to speak directly to the Trustees, and to hear the latest information on pension issues. The fifth AGM was held in Vancouver on October 14, 2006. The meeting was webcast to communities across Canada and members could

MEMBER SERVICES & COMMUNICATIONS

log on to the proceedings from home. Participants responded favourably to the webcast because it allowed them to watch and ask questions from the comfort of their own home. All members and employers are invited to attend the next AGM. The meeting will be held Saturday, October 13, 2007, at the Victoria Conference Centre from 10 a.m. to 1 p.m. To participate in the webcast, log on to the Municipal Pension Plan website at **mpp.pensionsbc.ca** and follow the instructions.

PLAN MEMBERSHIP

THE MUNICIPAL PENSION PLAN IS COMPOSED OF 220,022 MEMBERS from 642 employers. Membership is open to all eligible employees of a municipality, school district, regional college, the health sector, police and fire fighters, and many other eligible employers. Once an employee elects or qualifies to contribute to the Plan, contributions continue until the member terminates employment, retires, or accrues 35 years of pensionable service.

There are three types of members in the Municipal Pension Plan:

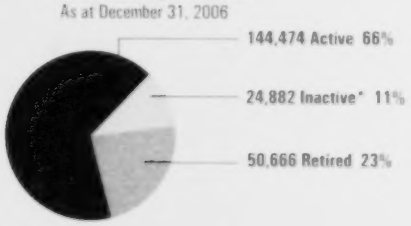
Active—those who are currently contributing, are on a leave of absence, or are receiving benefits from an approved long-term disability plan. There are 144,474 active plan members.

Inactive—those who have terminated their employment, but have left contributions deposited in the Plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. If an inactive member is not entitled to a Municipal Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by a transfer agreement. There are 24,882 inactive plan members.

Retired—those who are receiving a pension, including a disability pension. There are now 50,666 retired plan members.

Active membership increased by 10,098 or 7.5% from 2005. The number of retired plan members grew by 3,015 or 6.3% from 2005. The total number of retired members is expected to continue to grow in the next decade as more and more baby boomers reach retirement age.

Membership Profile
As at December 31, 2006



*Members no longer employed, but with money in the plan

PLAN MEMBERSHIP

Number of Members

As at December 31

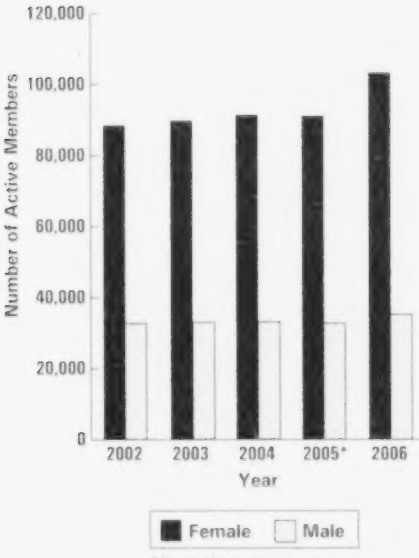
	Active	Inactive	Retired	Total
2006	**144,474**	**24,882**	**50,666**	**220,022**
2005*	134,376	22,796	47,651	204,823
2004	130,043	21,217	44,915	196,175
2003	128,267	18,648	41,681	188,596
2002	126,662	17,847	38,932	183,441

* Restated for comparative purposes

Active Members

Normal Retirement Age 65

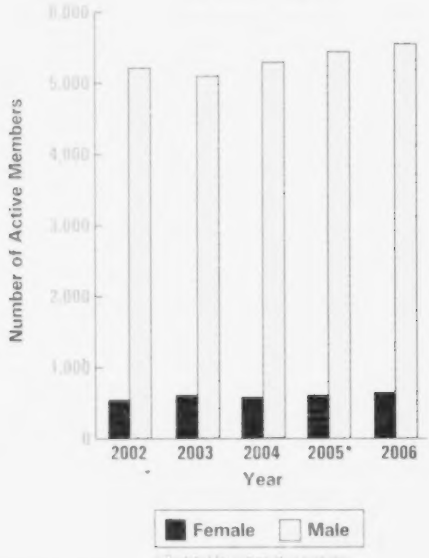
Year ended December 31



Active Members

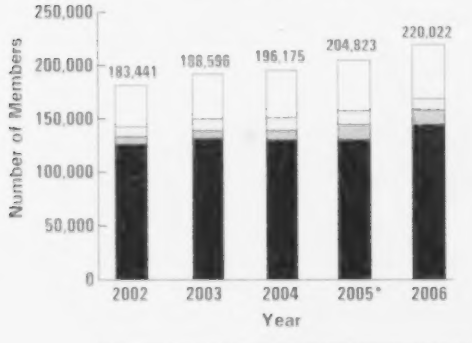
Normal Retirement Age 60

Year ended December 31



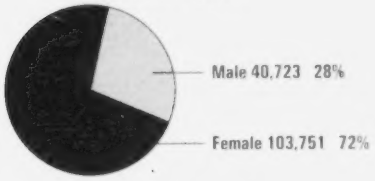
Number of Members

Year ended December 31



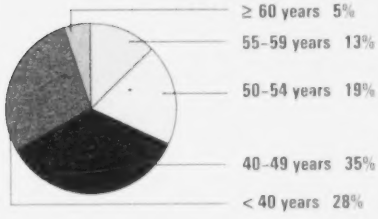
Active Member Profile

As at December 31, 2006



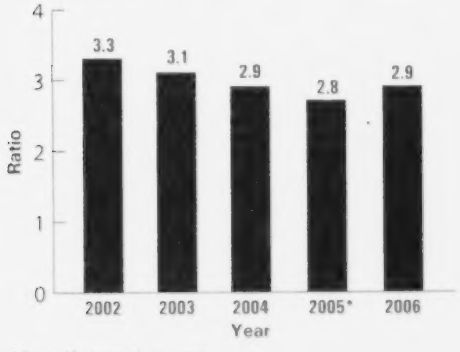
Age Profile of Active Members

As at December 31, 2006



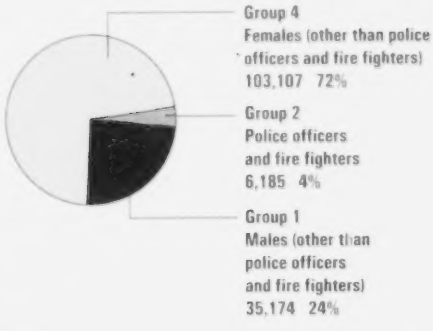
Ratio of Active Members to Retired Members

Year ended December 31



* Restated for comparative purposes.

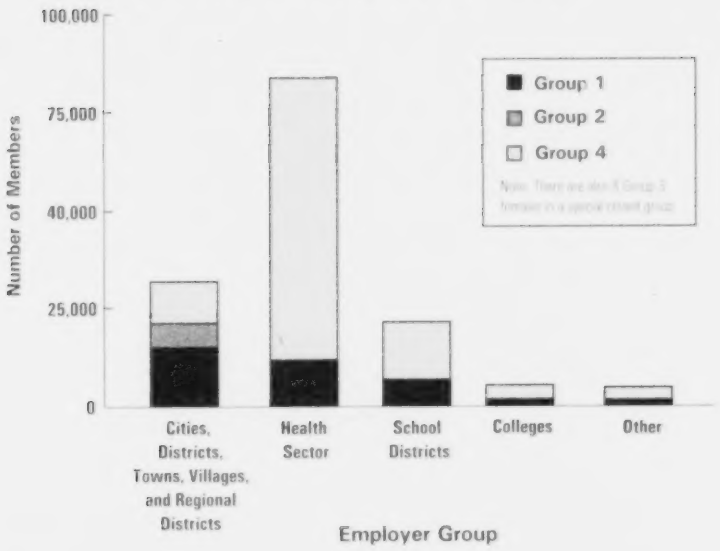
Active Members by Group



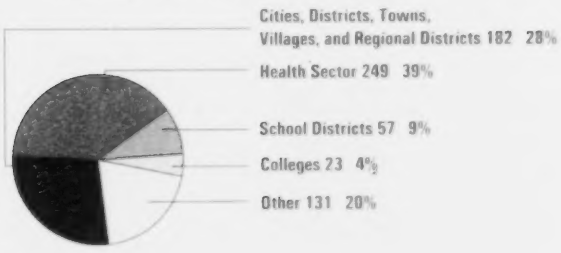
Note: There are also 8 Group 2 females in a special closed group.

PLAN MEMBERSHIP

Active Members by Employer Group



Municipal Pension Plan Employers


Cities, Districts, Towns, Villages, and Regional Districts 182 28%
Health Sector 249 39%
School Districts 57 9%
Colleges 23 4%
Other 131 20%

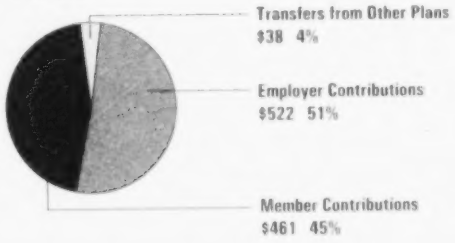
CONTRIBUTIONS

MEMBERS OF THE MUNICIPAL PENSION PLAN CONTRIBUTE TO the Plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Employers contribute at varying rates, depending on the mix of active plan members in the group rate classification specified by the Plan. The member contribution rates and the employer contribution rates on the next page are applied to pensionable salaries. Members contribute 6.99% of salary up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($42,100) and 8.49% of salary above that amount.

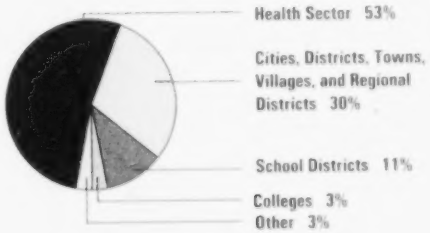
Once a member terminates employment, retires, or accrues 35 years of pensionable service, they no longer make contributions to the Plan.

Contribution Revenue

$ Millions



Total Regular Contributions by Employer Sector as a Percentage



CONTRIBUTIONS

Group 1: Males other than police officers and fire fighters

Group 2: Police officers and fire fighters

Group 3: Females pre-April 1971

Group 4: Females other than police officers and fire fighters

Employer Contribution Rates by Group and Age

Salaries less than or equal to YMPE

Group	<45 Years	≥45 Years*	<50 Years	≥50 Years*
1	n/a	n/a	5.39%	10.29%
2	8.99%	17.49%	n/a	n/a
3	6.09%	11.69%	n/a	n/a
4	n/a	n/a	5.89%	11.29%

Employer Contribution Rates by Group and Age

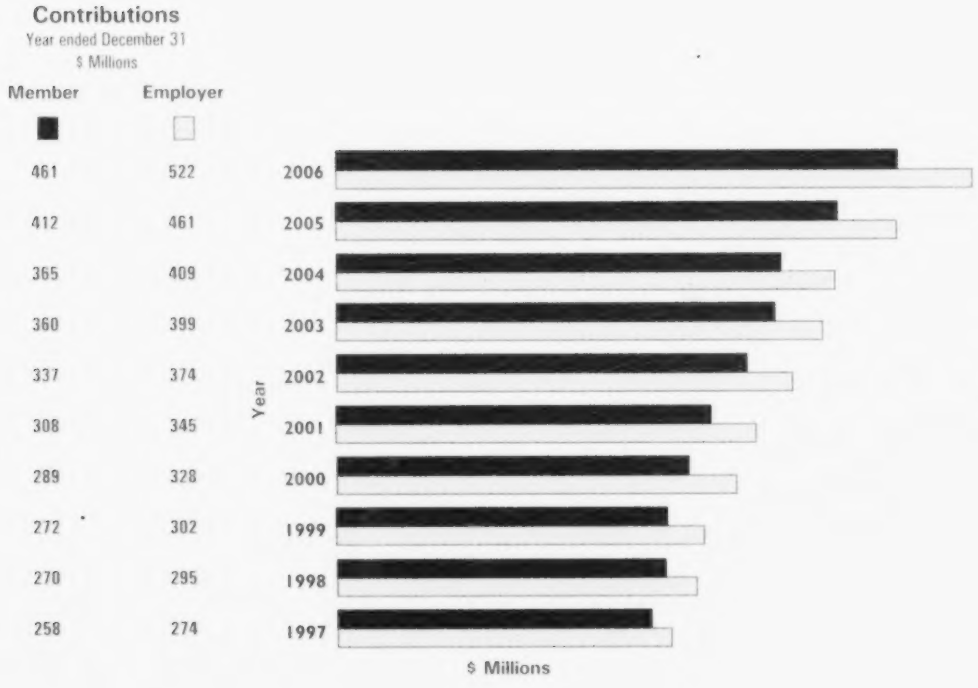
Salaries greater than YMPE

Group	<45 Years	≥45 Years*	<50 Years	≥50 Years*
1	n/a	n/a	6.89%	11.79%
2	10.49%	18.99%	n/a	n/a
3	7.59%	13.19%	n/a	n/a
4	n/a	n/a	7.39%	12.79%

* The employer contribution rate increases when a plan member reaches these ages.

Average Employer Contribution Rates by Sector

Health Sector	8.42%
Cities, Districts, Towns, Villages, and Regional Districts	8.53%
School Districts	8.44%
Colleges	7.72%
Other	8.52%



BENEFITS

PLAN BENEFITS ARE DEFINED BY THE PENSION PLAN RULES MADE under the authority of the Joint Trust Agreement.

PLAN BENEFITS

Guaranteed Basic Pension

The basic pension benefit is defined, meaning the pension is based on how many pensionable years the member has accrued in the Plan, the average of the best five years of salary (not necessarily the last five years) and age at retirement. The pension is not based on contributions to the Plan, nor is it based on the investment performance of the Plan's assets. The advantage of a defined benefit plan is that the pension is predictable. The Plan provides entitlement to a pension benefit after two years of contributory service. The Plan also provides survivor and disability benefits.

At December 31, 2006, the Plan provided pensions to 50,666 retired members, an increase of 6.3% from the previous year.

Indexing (Non-guaranteed)

Indexing is a non-guaranteed cost-of-living supplement to the basic pension. It is paid only to the extent that there is sufficient money in the Inflation Adjustment Account (IAA), which is funded by member and employer IAA contributions to the Plan.

On January 1, 2006, retired members received a full Consumer Price Index (CPI) increase of 3.4%. On January 1, 2007, retired members will receive a full CPI increase of 0.7%. Inflation increases to the pension may be provided each year based on changes in the CPI. (See Note 7b to the Financial Statements). Indexing, once granted, becomes guaranteed. The Board monitors the Plan's ability to continue to provide full indexing.

Basic Pension— Monthly pension that is paid by the Pension Plan for a member's lifetime. The pension may continue to another person after the member's death, depending on the form of pension the member chooses at retirement.

Bridge Benefit—A temporary pension paid to the member from retirement until age 65 or death, whichever comes first.

Cost-of-living— Increases to monthly pension amounts are based on the annual increase in the cost-of-living as measured by the Consumer Price Index. Cost-of-living adjustments begin the first January after a member retires. This indexing is not guaranteed.

BENEFITS

Pensions 1997–2006

	New Pensions during Year	Pension Terminations	In Force at End of Year	$ Millions Basic Pensions Paid	Inflation Adjustments Paid	Other Pensions Paid	Total
2006	**3,745**	**730**	**50,666**	**$590.8**	**$119.1**	**$1.2**	**$711.1**
2005	3,438	702	47,651	542.5	102.5	2.0	647.0
2004	3,937	703	44,915	495.9	96.0	1.8	593.7
2003	3,521	772	41,681	434.6	89.0	1.5	525.1
2002	3,307	653	38,932	391.5	82.3	1.2	475.0
2001	2,707	698	36,278	356.2	75.1	0.7	432.0
2000	2,629	636	34,269	325.1	67.9	0.4	393.4
1999	2,652	604	32,276	295.2	61.6	0.3	357.1
1998	2,340	606	30,228	268.4	61.6	0.2	330.2
1997	2,282	502	28,494	245.4	59.1	0.1	304.6

New Pensions by Type 1997–2006

	Regular*	Death*	LTD to Pension**	Deferred	Total
2006	**2,851**	**83**	**401**	**410**	**3,745**
2005	2,497	68	479	394	3,438
2004	3,074	72	475	316	3,937
2003	2,925	52	320	224	3,521
2002	2,647	60	350	250	3,307
2001	2,173	70	301	163	2,707
2000	2,089	80	323	137	2,629
1999	1,992	50	447	163	2,652
1998	1,842	74	243	181	2,340
1997	1,815	47	274	146	2,282

* New pensions do not include any pension continued to a beneficiary.

** Primarily represents members on long term disability who became eligible for a regular pension.

Average Value of New Regular Pensions—January 1, 2006 to December 31, 2006

Subdivided by years of service

Years of Service*	Number of New Regular Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	524	$ 48,000	$ 6,000	$ 71,000	$ 37.2
10–14	547	46,000	10,800	134,000	73.3
15–19	528	51,000	16,300	206,000	108.8
20–24	398	53,000	22,500	295,000	117.4
25–29	412	55,000	28,800	381,000	157.0
30–34	379	60,000	37,200	532,000	201.6
35 years	63	60,000	39,200	551,000	34.7
Total	2,851	n/a	n/a	n/a	$ 730.0
Average of all pensions	n/a	$ 52,000	$ 19,300	$ 256,000	n/a

* Years of service includes service transferred from other plans.

New Regular Pensions by Age at Retirement—Groups* 1, 3 and 4

Normal Retirement Age 65

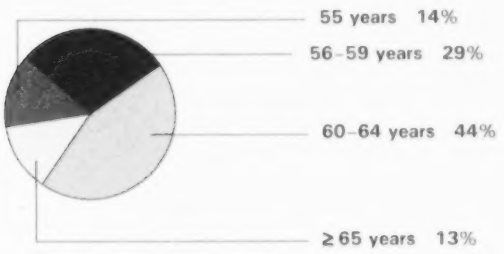
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	≥65	Total
<10 years	47	125	244	104	520
10–14	82	141	227	97	547
15–19	67	136	257	66	526
20–24	61	95	199	33	388
25–29	56	98	173	26	353
30–34	53	181	77	14	325
35 years	8	25	14	5	52
Total	**374**	**801**	**1,191**	**345**	**2,711**
Average Service	**19**	**20**	**17**	**14**	**18**
Average Age					**60**

* All plan members except police officers and fire fighters (Group 2)

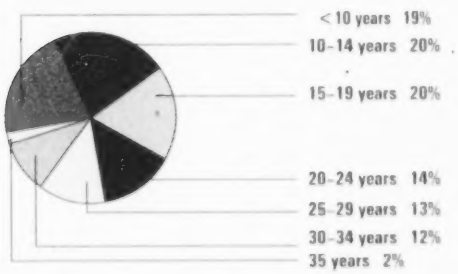
Percentage of New Regular Pensions—Groups 1, 3, 4

By Age—Normal Retirement Age 65



Percentage of New Regular Pensions—Groups 1, 3, 4

By Years of Service—Normal Retirement Age 65



BENEFITS

New Regular Pensions by Age at Retirement—Group 2*

Normal Retirement Age 60

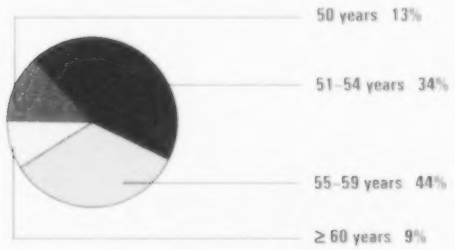
Subdivided by years of service and age at retirement

Years of Service	50	51–54	55–59	60	Total
<10 years	–	1	3	–	4
10–14	–	–	–	–	–
15–19	–	–	1	1	2
20–24	–	3	6	1	10
25–29	5	30	21	3	59
30–34	13	14	24	3	54
35 years	–	–	7	4	11
Total	**18**	**48**	**62**	**12**	**140**
Average Service	**31**	**28**	**28**	**30**	**28**
Average age					**55**

* Police officers and fire fighters

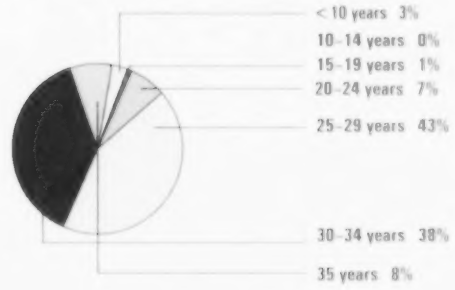
Percentage of New Regular Pensions – Group 2

By Age – Normal Retirement Age 60



Percentage of New Regular Pensions – Group 2

By Years of Service – Normal Retirement Age 60



Termination and Refund Benefits

A terminating member with two or more years of contributory service, who has not reached earliest retirement age, may be eligible to choose a deferred pension or a commuted value payment.

- **A deferred pension**—a pension payable at a later date, either when the member is eligible or at a later date in order to receive an unreduced pension.
- **A commuted value payment**—a lump sum that represents the value of benefits earned to the termination date. It is the amount of money that needs to be set aside today, using current interest rates, to provide enough funds at retirement to pay your pension. A commuted value payment must be transferred to a locked-in registered retirement savings plan or a registered pension plan.

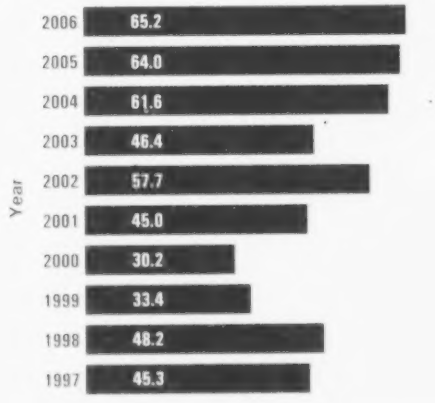
A terminating member may also choose to leave funds on deposit in the Plan in anticipation of future entitlements. If the member is under 60 (55 for police and fire fighters) with less than two years of contributory service, he or she may also choose a refund of contributions with interest.

Interest compounds annually and is credited to the member's contribution balance. This amount is included on the annual *Member's Benefit Statement*. The rate of interest is governed by the applicable pension legislation and is based on average bank five-year personal term deposit rates (2006—2.90%; 2005—2.46%).

The number and value of termination and refund benefits paid can vary from year to year, depending on the employment environment, the type of benefit paid, and the Plan member's entitlement. In 2006, the number of termination and refund benefits paid decreased 28%, whereas the value of termination and refund benefits paid increased 1.9% compared to 2005.

Value of Termination and Refund Benefits Paid

Year ended December 31



Number of Termination and Refund Benefits Paid

Year ended December 31

Benefits paid exclude only refunds of contributions and commuted value payments; deferred pensions are included in pension payments.

Purchase of Additional Service

Members of the Municipal Pension Plan may be able to increase their future pension benefits by purchasing service. Purchasing service means paying for periods of employment with a plan employer that were not previously counted as service with the Pension Plan. This service may include:

- leaves of absence (maternity, parental or other leave),
- arrears contributions (not enrolled, but eligible to buy back missed contributions),
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the Plan).

Purchase of service rules changed April 1, 2002. For periods ending on or before March 31, 2002, members had to apply to purchase this service by March 31, 2007, or termination of their current employment (whichever comes first). Beginning April 1, 2007, members may only purchase periods of service that end within the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on your plan website at **mpp.pensionsbc.ca**.

In 2006, the number of purchases of additional service decreased 55% from 2005. The value of the purchases decreased 51%.

Member and Employer Purchases of Additional Service
Year ending December 31

Transferring Service

Transfer agreements allow members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan, at a different place of employment, if the new plan has an agreement with the Municipal Pension Plan. In order to transfer service, the member must have left contributions on deposit or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits. Members of the Municipal Pension Plan who made contributions to other pension plans may want to inquire about transfer agreements.

Under the BC Public Sector Pension Transfer Agreement of April 1, 2004, transfers can be made between the Municipal Pension Plan and the College, Public Service and Teachers' pension plans, and other signatories to the agreement. In June 2004, the Board entered into the National Public Service Pension Transfer Agreement, which allows transfers between a number of provincial public service pension plans in Canada. The Board no longer enters into bilateral reciprocal transfer agreements with other pension plans; any other plan wishing to establish reciprocity with the Municipal Pension Plan should consider entering into the National Public Service Pension Transfer Agreement.

In 2006 there were 683 reciprocal transfers-in from other pension plans and 453 transfers-out. The transfers-in totalled approximately $37.6 million; transfers-out totalled approximately $28.3 million.

GROUP BENEFITS (NON-PENSION)

Group benefits (extended health, medical and dental) are not guaranteed. They are funded by a limited portion of employer contributions that would otherwise go to the Inflation Adjustment Account. The Board has adopted a plan to continue to provide access to group benefits for retirees.

INVESTMENTS

MARKET REVIEW

... overseeing the investment of approximately $23.7 billion in assets, for the long-term benefit of the plan and its members.

THE BOARD IS RESPONSIBLE FOR OVERSEEING THE INVESTMENT of approximately $23.7 billion in net assets, for the long-term benefit of the plan members. The most important issue for any pension plan is long-term results, and the Board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision-making.

The Board reviews the *Statement of Investment Policies and Procedures* (SIPP) annually, approves the long-term asset mix policy for the investment of assets and oversees the management of those assets through the Board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (bonds, equities, real estate), industry sectors, and global markets.

Report on 2006 Investment Results

The Board is pleased to report that the Basic and Inflation Adjustment Accounts experienced their fourth consecutive year of double-digit returns. The Basic Account realized a 15.0% return on its investments, while the Inflation Adjustment Account earned 15.2%.

Stocks and real estate were strong contributors to last year's results. Non-North American stocks were one of the best performing asset classes in 2006. The Plan participates in five international equity pools, whose returns ranged between 13.2% and 36.6%. On a combined basis, the Basic and Inflation Adjustment Accounts earned a 25.8% return on their non-North American stock holdings.

Canadian equities generated an 18.1% return for the Plan. The Plan participates in four Canadian equity pools whose returns ranged from 15.1% to 20.2%.

U.S. stocks held by the Plan also produced double-digit returns averaging 15.3% in 2006. Returns ranged from 20.8% on the U.S. Value pool to 13.7% on the U.S. Active pool. In recent years, the Plan has reduced its exposure to the U.S. dollar through currency hedging. In 2006, the Canadian dollar was weaker than expected and hedging had a small negative impact on the Plan's U.S. equity returns.

Real estate continued to perform strongly, with the domestic pool returning 26% in 2006.

Fixed income, including mortgages, provided more modest returns in 2006. There was little difference between short-term and long-term debt securities as the returns ranged from 3.8% to 4.2%. In 2006, mortgages provided returns between 5.1% and 7.3%. Index-linked bond returns provided negative returns in 2006 as real interest rates rose and real return bond prices fell.

The Basic Account's 15.0% return exceeded its market benchmark of 12.2%. This added value can be attributed to tactical decisions made by the investment agent, the British Columbia Investment Management Corporation. These tactical adjustments were made within the discretionary latitude approved by the Board.

Outlook

Global economic growth is expected to slow slightly but remain solid in 2007. Nevertheless, there are numerous potential threats to economic and financial stability.

- Although central banks have raised short-term interest rates, money remains plentiful and cheap.
- Cheap credit and calm markets have encouraged risk-taking by many investors.
- Still-low interest rates make financial leverage cheap.
- All these factors have the potential to create price bubbles in some asset markets.
- Corporate profit growth appears to have peaked in the major economies, which may result in growing earnings disappointment.
- Other macroeconomic risks include high levels of indebtedness in some countries and the resulting imbalances in capital and trade flows that could cause volatility in currencies, interest rates and equity markets.

History suggests that the high recent investment returns are unlikely to continue, even if the risks outlined above do not adversely impact next year's results. Even so, the adjustment to a more sustainable path of economic growth and corporate profits is not always smooth, and financial market volatility will often increase during the transition.

APPROVED INVESTMENT ASSET MIX

Strategic and short-term asset allocation targets are set within the ranges shown in the table below. The short-term classification in the table below includes government bonds with one- to five-year terms and money market funds.

Basic Account Investment Asset Mix and Performance

As at December 31, 2006

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark (%)*
Fixed Income	**25–45**			
Short-term	0–10	3.9	4.1	4.0
Mortgages	0–10	4.0	5.6	5.1
Bonds	17–28	20.6	4.0	4.1
Real Return Bonds	0–10	4.1	-2.1	-2.9
Equity	**55–75**			
Canadian Equities	12–22	16.4	18.1	20.2
U.S. Equities	10–20	15.3	15.3	15.6
International Equities	10–20	18.9	25.8	25.5
Real Estate	8–15	12.3	26.0	5.6
Private Placements	0–10	4.3	**	**

* Benchmarks are standards to compare against actual investment returns.

** Annual rate of return is not applicable.

INVESTMENT PORTFOLIO

Investments are stated at fair market value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly, based on the value of the underlying assets. In the table below, all portfolios are pooled except Real Return Bonds, which is directly held.

Investments Held as at December 31, 2006

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	197,907	0.8
Short-term bonds (1-5 years)	727,963	3.1
	925,870	3.9
Bonds		
Government	64,268	0.3
Universe	3,905,105	16.4
Long-term	931,985	3.9
Real Return	966,693	4.1
	5,868,051	24.7
Canadian Equities		
Indexed	1,839,745	7.7
Actively Managed	2,067,614	8.7
	3,907,359	16.4
U.S. Equities		
Indexed	2,350,826	9.9
Actively Managed	1,281,181	5.4
	3,632,007	15.3
International Equities		
Asia	812,654	3.4
Europe	1,453,592	6.1
Europe, Australia and the Far East	2,214,155	9.4
	4,480,401	18.9
Real Estate, Mortgages, Private Placements and Foreign Currency		
Real Estate	2,915,384	12.3
Mortgages	939,610	4.0
Private Placements	1,027,249	4.3
Foreign Currency	44,044	0.2
	4,926,287	20.8
Total Investments	**$23,739,975**	**100.0**
2005 Comparison	$20,504,784	

For further information on the investment portfolio, visit the bcIMC website at ***www.bcimc.com.***

INVESTMENTS

Investments Held as at December 31, 2006

(Underlying investments are in pooled portfolios.)

Top 10 Holdings

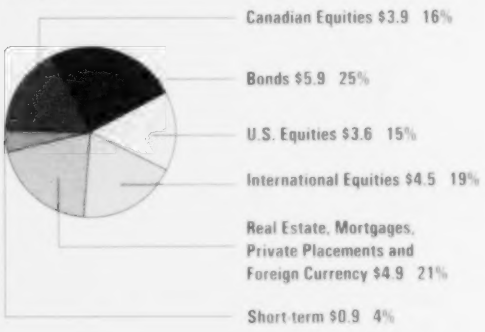
Canadian Equities Company	Market Value ($ Thousands)	% of Total Canadian Equities
Royal Bank of Canada	$186,874	4.8
Manulife Financial Corporation	177,582	4.5
Suncor Energy Inc	165,729	4.2
Bank of Nova Scotia	154,482	4.0
Toronto Dominion Bank	146,853	3.8
Encana Corporation	140,195	3.6
Bank of Montreal	95,630	2.4
Canadian Imperial Bank of Commerce	90,030	2.3
Canadian National Railway	83,624	2.1
Petro-Canada	78,347	2.0
Total Top Ten	**$1,319,346**	**33.7**
Total Canadian Equities	**$3,907,359**	**100.0**

U.S. Equities Company	Market Value ($ Thousands)	% of Total U.S. Equities
General Electric	$104,201	2.9
Exxon Mobil Corporation	96,089	2.6
Citigroup Inc	84,440	2.3
Bank of America	74,638	2.1
Microsoft Corporation	65,858	1.8
AT&T Inc	62,208	1.7
JP Morgan Chase	48,843	1.3
Altria Group Inc	47,786	1.3
Pfizer Inc	47,774	1.3
American International Group	47,426	1.3
Total Top Ten	**$679,263**	**18.6**
Total US Equities	**$3,632,007**	**100.0**

International Equities Company	Market Value ($ Thousands)	% of Total International Equities
Total	$ 76,962	1.7
Royal Dutch Shell	61,669	1.4
HSBC Holdings	54,142	1.2
BP	51,706	1.2
ENI	49,827	1.1
Vodafone Group	47,726	1.1
Roche Holdings AG	47,334	1.1
Nestle SA	46,849	1.0
Novartis AG	45,835	1.0
Toyota Motor Corp	43,240	1.0
Total Top Ten	**$525,290**	**11.8**
Total International Equities	**$4,480,401**	**100.0**

Investment Holdings (Market Value)

$ Billions


Canadian Equities $3.9 16%
Bonds $5.9 25%
U.S. Equities $3.6 15%
International Equities $4.5 19%
Real Estate, Mortgages, Private Placements and Foreign Currency $4.9 21%
Short-term $0.9 4%

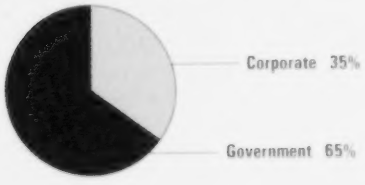
Canadian Equities (Market Value)

U.S. Equities (Market Value)

■ Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite).

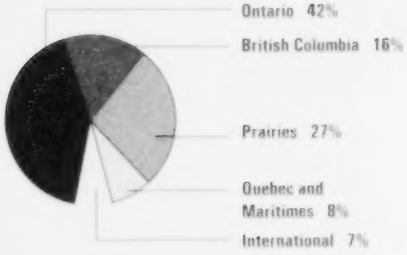
Actively Managed: A portfolio of securities that is designed to outperform a public market index.

Bonds (Market Value)



Domestic Real Estate, by Type

Real Estate, by Location

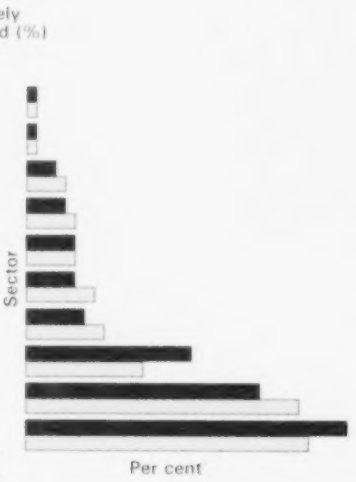


INVESTMENTS

Investments Held as at December 31, 2006

Canadian Equities, by Sector

Sector	Indexed (%)	Actively Managed (%)
Utilities	1	1
Health Care	1	1
Consumer Staples	3	4
Information Technology	4	5
Telecommunications	5	5
Consumer Discretionary	5	7
Industrials	6	8
Materials	17	12
Energy	24	28
Financial Services	34	29
	100%	100%

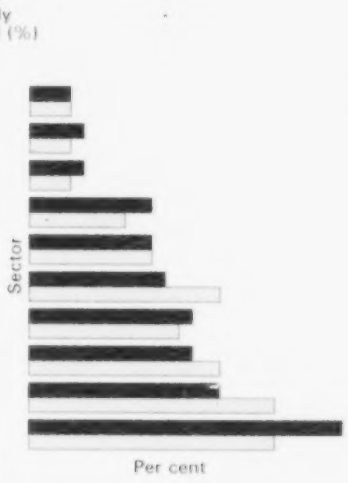


■ Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite).

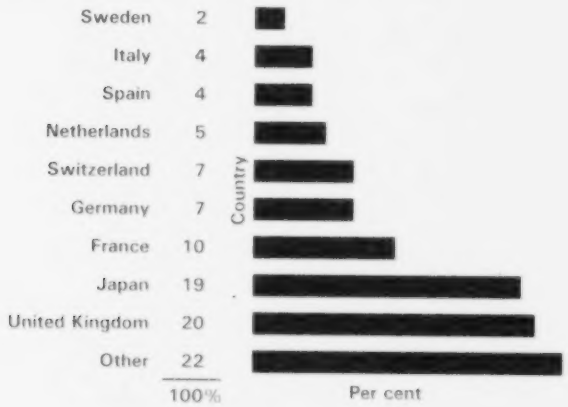
□ Actively Managed: A portfolio of securities that is designed to outperform a public market index.

U.S. Equities, by Sector

Sector	Indexed (%)	Actively Managed (%)
Materials	3	3
Telecommunications	4	3
Utilities	4	3
Consumer Staples	9	7
Energy	9	9
Consumer Discretionary	10	14
Industrial Products	12	11
Health Care	12	14
Information Technology	14	18
Financial Services	23	18
	100%	100%



International Equities, by Country (%)



INVESTMENT PERFORMANCE

Market Value Rates of Return for the Year Ended December 31, 2006

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)*	
Annual Rates				
2006	**15.0**	**15.2**	**12.2**	
2005	12.0	12.5	10.7	
2004**	10.0	10.3	10.1	
2003**	12.2	13.5	13.6	
Five-year Annualized† Rates				
2006	**8.7**	**9.4**	**8.1**	
2005	5.4	5.9	5.1	
Ten-year Annualized† Rates				
2006	**8.5**	**8.6**	**8.2**	
2005**	8.6	8.9	8.5	
2006 Annual Rates by Investment Category				**Basic Account Performance Benchmarks***
Short-term				
Money Market	4.1	4.1	4.0	SCI 91-Day T-Bill
Bonds	3.9	3.9	3.9	SCI Short-term Government Bond
Bonds				
Universe††	4.2	4.2	4.1	SCI Universe Bond
Long-term	3.8	3.8	3.9	SCI Government Long Term Bond
Real Return	(2.1)	(2.6)	(2.9)	SCI Real Return Bond
Canadian Equities				
Actively Managed	15.1	15.1	20.2	S&P/TSX Equity
Indexed	20.2	20.2	20.2	S&P/TSX Equity
Enhanced	18.6	18.6	20.2	S&P/TSX Equity
Strategic Infrastructure	18.5	18.5	20.2	S&P/TSX Equity
U.S. Equities				
Actively Managed	13.7	13.7	15.4	R 1000
Indexed	15.7	15.7	15.7	S&P 500
Value	20.8	20.8	20.7	S&P 500/Barra Value
Enhanced	15.6	15.6	15.6	S&P 500
International Equities				
Asia	13.2	13.2	11.8	MSCI Pacific Net
Europe	34.9	34.9	33.2	MSCI Europe Net
Europe, Australia and the Far East	25.6	25.6	25.9	MSCI Europe, Australasia, Far East Net
Real Estate	26.0	26.0	5.6	CPI + 4%
Mortgages				
Fixed-term	5.1	5.1	5.0	SCI Short-term Bond + 1%
Construction	7.3	7.3	5.1	SCI One-year T-Bill + 1%
Specialty	6.3	6.0	6.6	SCI One-year T-Bill + 2.5%

* Benchmarks are standards to compare against actual investment returns.

** Restated to reflect retroactive changes.

† An annualized rate means the rate for a five or ten year period converted into the equivalent annual rate. The five year annualized rate of the Basic Account is the net earned rate of the fund.

†† Universe bonds are comprised of Corporate and Government Bonds.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
R	=	Russell
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

FINANCIAL HEALTH

ONE OF THE MAJOR ROLES OF THE TRUSTEES IS TO FOCUS ON the financial health of the Plan. The goal is to achieve consistent and steady performance over the long term. To do this we follow sound investment principles that direct the fund managers to invest prudently and ethically.

Every three years, an independent actuary assesses the financial health of the Plan. At the most recent actuarial valuation as at December 31, 2003, the Plan had an unfunded liability for basic pension benefits of $789 million. There are two main reasons for this change in actuarial position. First is the lower investment returns experienced by the Plan since the 2000 valuation, due to the investment climate. Second is a reduced rate of return in the key long-term assumptions used by the actuary in the new valuation. The funded portion of the liability is 96% of the total liabilities for basic pension benefits. To address this situation, on July 1, 2005, a contribution rate increase of 1.98% was implemented, shared equally between employers and members.

The next valuation will be as at December 31, 2006 with the results available for the 2007 annual report.

FINANCIAL HEALTH

Latest Actuarial Valuation

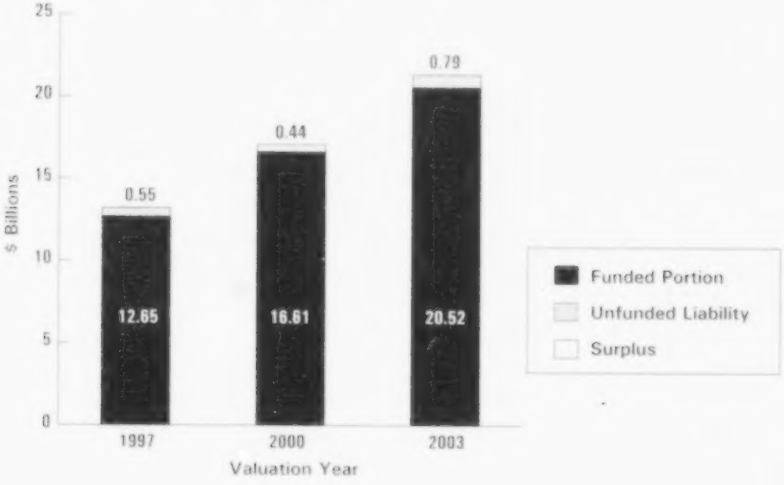
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
December 31	2003	2000	1997
For Funding Purposes*	($789)	$436	($548)
Ratio of Surplus (Unfunded) Liability to Covered Payroll	(14%)	9%	(14%)
For Accounting Purposes to December 31	($29)	$847	($297)

* Assuming contributions continue at rates in effect at the valuation date. See Note 7 and Note 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability

As at December 31



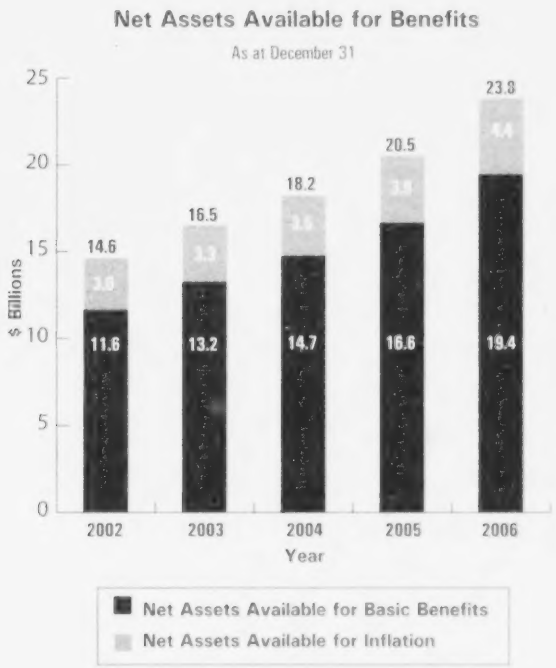
FIVE-YEAR FINANCIAL SUMMARY

$ THOUSANDS

For the year ended December 31	2006	2005	2004	2003	2002
Increase (Decrease) in Assets					
Investment Income (Loss)*	**$3,126,011**	$2,223,665	$1,678,462	$1,835,701	($655,335)
Contributions					
Members'	**460,829**	412,067	365,471	360,200	336,863
Employers'	**522,128**	460,608	409,239	398,707	373,785
Transfers from Other Plans	**37,623**	48,501	37,700	36,880	26,555
Total Increase in Assets	**4,146,591**	**3,144,841**	**2,490,872**	**2,631,488**	**81,868**
Decrease in Assets					
Pension Benefits	**711,133**	647,025	593,731	525,142	475,007
Termination and Refund Benefits	**65,221**	63,996	61,648	46,415	57,688
Transfers to Other Plans	**28,273**	27,383	37,092	29,586	58,597
Retired Member Group Benefits	**55,615**	48,347	41,391	52,605	51,003
Investment and Administration Costs*	**43,344**	39,762	35,179	35,517	32,571
Total Decrease in Assets	**903,586**	**826,513**	**769,041**	**689,265**	**674,866**
Increase (Decrease) in Net Assets	**3,243,005**	2,318,328	1,721,831	1,942,223	(592,998)
Net Assets Available for Benefits at Beginning of Year	**$20,533,455**	$18,215,127	$16,493,296	$14,551,073	$15,144,071
Net Assets Available for Benefits at End of Year	**$23,776,460**	**$20,533,455**	**$18,215,127**	**$16,493,296**	**$14,551,073**
Investment and Administration Costs as a Percentage of Net Assets*					
Investment Management*	**0.19%**	0.17%	0.15%	0.13%	0.15%
Administration	**0.08%**	0.09%	0.09%	0.12%	0.12%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $20.6 million (2005: $12.6 million; 2004: $7.9 million; 2003: $5.7 million; 2002: $5.3 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets.

FIVE-YEAR FINANCIAL SUMMARY



FINANCIAL HEALTH

PENSION
CORPORATION

Executive
Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J8

Phone:
250 387-8201
1 800 663-8823
Fax:
250 953-0439

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Municipal Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

RON MILLARD, FCGA
Director, Finance
British Columbia Pension Corporation

SANDRA LENZ, CA
Chief Financial Officer
British Columbia Pension Corporation

April 10, 2007

FINANCIAL STATEMENTS

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the statement of net assets available for benefits of the Municipal Pension Plan as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2006 and the results of its operations and changes therein for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

April 10, 2007

KPMG LLP, a Canadian limited liability partnership, is a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at December 31	2006	2005
ASSETS		
Investments (Note 3)	$ 23,739,975	$ 20,504,784
Receivables		
Members' contributions	20,143	17,819
Employers' contributions	21,680	19,833
Accrued investment income	2,484	3,031
Due from sale of investments	13,286	15,791
	57,593	56,474
Prepaid expenses	3,583	3,042
Cash	7,275	2,910
Total Assets	$ 23,808,426	$ 20,567,210
LIABILITIES		
Payable for purchase of investments	13,286	10,300
Accounts payable and accrued expenses	18,680	23,455
Total Liabilities	31,966	33,755
NET ASSETS AVAILABLE FOR BENEFITS	$ 23,776,460	$ 20,533,455

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

Brendan Dick
Chair, Municipal Pension Board of Trustees

Lyn Kocher
Trustee,
Municipal Pension Board of Trustees

FINANCIAL STATEMENTS

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2006	2005
INCREASE IN ASSETS						
Investment income (Note 4)	$ 2,548,396	$ 43,060	$ 534,389	$	$ 3,126,011	$ 2,253,665
Contributions (Note 5)						
Members'	388,791	8,269	61,803	1,866	460,829	412,867
Employers'	435,601	10,109	19,954	36,464	502,128	469,408
	824,392	18,378	81,857	38,330	962,957	882,275
Transfers from other plans	58,218		9,405		67,623	48,501
Total Increase in Assets	3,430,996	61,444	625,651	38,330	4,156,591	3,184,441
DECREASE IN ASSETS						
Pension benefits						
Contributory	581,792			1,250	593,042	544,554
Indexing supplements	119,008			83	119,091	102,471
	700,800			1,333	712,133	647,025
Termination and refund benefits	38,401	1,485	24,279	686	65,221	63,996
Transfers to other plans	20,727		7,546		28,273	27,383
Retired member group benefits (Note 10)				55,615	55,615	48,547
Investment & Administration costs (Note 9)	38,451		4,117	776	43,344	39,762
Total Decrease in Assets	807,379	1,485	36,392	58,330	905,586	826,513
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,623,617	59,959	589,259		3,243,005	2,357,928
Account transfers (Note 6)	214,305	(18,355)	(196,150)			
INCREASE IN NET ASSETS	2,808,092	41,604	393,309		3,243,005	2,357,928
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	16,592,526	287,835	3,653,094		20,533,455	18,175,527
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 19,400,618	$ 329,439	$ 4,046,403	$	$ 23,776,460	$ 20,533,455

Supplemental Benefits Accounts (Note 10)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The Municipal Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the Plan rules.

a) General

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Partners and key stakeholders appoint sixteen trustees representing Plan members and Plan employers. The Chair and the Vice Chair are appointed by the other trustees. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 5.99% (5.0% to June 30, 2005) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($42,100 in 2006) and 7.49% (6.5% to June 30, 2005) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Employers contribute to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Inflation Adjustment Account
Members contribute 1% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Retirement Annuity Account
Some employers have special agreements with members by which both make extra contributions to increase members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic and the Inflation Adjustment Accounts as additional pensions are purchased with the accumulated monies (Note 6).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five year highest average salary (HAS).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

d) Pension Benefits (continued)

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to availability of funds in the Inflation Adjustment Account (Notes 6 and 7b).

At January 1, 2006, retired members received a full CPI increase of 3.4% (2005: 1.8%). At January 1, 2007, retired members will receive a full CPI increase of 0.7%.

e) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under age 60 with less than two years of contributory service (age 55 for certain groups), may also choose a refund of contributions with interest.

Termination benefits cannot be accessed until one year from the date a terminating member stops contributing.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)*, except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan, and does not purport to show whether these assets are adequate to meet the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

Certain comparative figures have been reclassified to conform to the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of those assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earning multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets during the period. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account. Actual results could differ from those estimates.

3. INVESTMENTS (FAIR VALUE)

	2006			2005
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 756,115	$ 169,755	$ 925,870	$ 619,158
Canadian Bonds	4,906,936	961,115	5,868,051	5,549,728
Canadian Equities	3,246,458	660,901	3,907,359	3,983,492
U.S. Equities	3,018,278	613,729	3,632,007	3,181,927
International Equities	3,723,941	756,460	4,480,401	3,636,024
Foreign Currency	36,135	7,909	44,044	34,260
Mortgages	772,903	166,707	939,610	745,464
Real Estate	2,421,699	493,685	2,915,384	2,172,910
Private Placements	818,134	209,115	1,027,249	581,821
	$ 19,700,599	$ 4,039,376	$ 23,739,975	$ 20,504,784

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. INVESTMENTS (FAIR VALUE) (continued)

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, refer to investments in the markets of Europe and Asia, as well as key emerging markets. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of foreign currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or exchange rates.

Basic Account Canadian bonds of $17.1 million (2005: $18.0 million) are being held in a collateral account for a future investment opportunity (Note 11).

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2006: $329.4 million; 2005: $287.8 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

4. INVESTMENT INCOME

	2006			2005
	Income Allocation	Current Period Change In Fair Value	Total	Total
		($ Thousands)		
Basic Account				
Short-term	$ 29,532	$ 1,874	$ 31,406	$ 4,188
Canadian Bonds	204,671	(57,545)	147,126	390,656
Canadian Equities	60,706	478,125	538,831	621,598
U.S. Equities	68,804	337,069	405,873	158,153
International Equities	85,791	689,965	775,756	312,172
Foreign Currency	1,334	1,835	3,169	(133)
Mortgages	32,642	5,443	38,085	37,912
Real Estate	30,927	492,697	523,624	255,934
Private Placements	4,942	122,610	127,552	38,921
	$ 519,349	$ 2,072,073	$ 2,591,422	$ 1,819,401
Less Retirement Annuity Account Income Allocation			(43,066)	(31,161)
			$ 2,548,356	$ 1,788,240
Inflation Adjustment Account				
Short-term	$ 6,221	$ 492	$ 6,713	$ 984
Canadian Bonds	38,929	(14,140)	24,789	86,470
Canadian Equities	11,773	99,309	111,082	133,786
U.S. Equities	13,533	68,657	82,190	32,537
International Equities	16,682	141,262	157,944	67,378
Foreign Currency	285	402	687	(29)
Mortgages	6,217	1,150	7,367	8,042
Real Estate	6,197	103,618	109,815	54,971
Private Placements	2,997	31,005	34,002	20,125
	$ 102,834	$ 431,755	$ 534,589	$ 404,264
Total Investment Income			$ 3,126,911	$ 2,223,665

Investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

5. CONTRIBUTIONS

	2006					2005
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
			($ Thousands)			
Members contributions						
Regular	$ 372,313	$	$ 59,329	$ 1,866	$ 433,708	$ 366,177
Special Agreements		8,266			8,266	7,851
Arrears	1,325		189		1,514	2,545
Purchase of service	6,628		1,125		7,753	17,749
Leave of absence	1,430	3	275		1,588	2,887
Reinstatement	7,175		825		8,000	14,858
	$ 388,791	$ 8,269	$ 61,903	$ 1,866	$ 460,829	$ 412,067
Employers contributions						
Regular	$ 425,982	$	$ 18,262	$ 849	$ 445,673	$ 373,885
ERIP contributions	80		14		94	107
Special Agreements		10,106			10,106	9,595
Arrears	2,371		310		2,681	3,435
Purchase of service	7,992		1,131		9,123	21,781
Leave of absence	1,640	3	237		1,880	3,458
Supplemental benefits				55,615	55,615	48,347
	$ 438,065	$ 10,109	$ 19,954	$ 56,464	$ 524,592	$ 460,608
Total Contributions	$ 826,856	$ 18,378	$ 81,857	$ 58,330	$ 985,421	$ 872,675

Member and employer contributions are as defined under the Plan rules.

6. ACCOUNT TRANSFERS

	2006			2005		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
			($ Thousands)			
Present value of current indexing supplements	$ 197,388	$	$ (197,388)	$ 96,755	$	$ (96,755)
Indexing of deferred pensions	4,148		(4,148)	3,297		(3,297)
Excess Interest						
Pensions purchased from Retirement Annuity Account	12,969	(18,355)	5,386	16,636	(21,056)	4,420
	$ 214,505	$ (18,355)	$ (196,150)	$ 116,688	$ (21,056)	$ (95,632)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

6. ACCOUNT TRANSFERS (continued)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2006. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $6.7 billion of assets for 2006 (2005: $6.1 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return (8.7%) and the rate of return used by the actuary (7.0%) in valuing the plan's liabilities. The calculated excess interest rate of return for 2006 was 1.7% (2005: -1.6%). The cumulative negative excess interest amount of $400.8 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

	2006	2005
	($ Millions)	
Cumulative negative excess interest, beginning of year	$ (472.8)	$ (356.7)
Interest applied to beginning of year amount	(41.1)	(19.3)
Current year (negative) excess interest	113.1	(96.8)
Cumulative negative excess interest, end of year	$ (400.8)	$ (472.8)

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic and the Inflation Adjustment Accounts as additional pensions are purchased.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of the member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2003 by Eckler Partners Ltd. This valuation disclosed an unfunded actuarial liability (UAL) for basic pension benefits of $789 million (2000: $436 million surplus), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 7.0% (2000: 7.25%)
- annual salary escalation rate 4.5% (2000: 4.75%)

The next full actuarial valuation will be as at December 31, 2006, for inclusion in the December 31, 2007 financial statements.

The Joint Trust Agreement (Agreement) specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives, in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates and providing specified benefit improvements when sufficient surplus assets allow simultaneous implementation
- 50% of any additional surplus assets must be transferred to a Contribution Rate Stabilization Reserve, and 50% must be transferred to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going concern basis, the increase must be shared equally by members and employers.

MUNICIPAL PENSION PLAN
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7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and therefore, when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all indexing granted to the date of the valuation, but not for as yet unknown future indexing.

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8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The latest full valuation was made as at December 31, 2003, by Eckler Partners Ltd. The results were as follows:

As at December 31	2003	2000
	($ Millions)	
Net assets available for basic pension benefits	$ 13,227	$ 11,992
Five year market value smoothing adjustment	465	(808)
Net actuarial assets for basic pension benefits	13,692	11,184
Liability for accrued basic pension benefits	13,721	10,337
(Unfunded Actuarial Liability – UAL)/Actuarial Surplus	$ (29)	$ 847

The next full actuarial valuation will be at December 31, 2006 for inclusion in the December 31, 2007 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2006, using the following long-term actuarial assumptions:

- annual investment return 7.0% (2000: 7.25%)
- annual salary escalation rate 4.5% (2000: 4.75%)

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FOR THE YEAR ENDED DECEMBER 31, 2006

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On that basis, the extrapolated value of the surplus at December 31 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits As at December 31	2006	2005
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$ 15,968	$ 14,769
Account transfers	214	117
Current year contributions	841	738
Net transfers from (to) other plans	-	15
Pension, termination and refund benefits	(750)	(684)
Retired member group benefits	(15)	(14)
Administration costs	(18)	(17)
Interest accrued on assets	1,135	1,044
Extrapolated actuarial assets, end of year	$ 17,382	$ 15,968

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits As at December 31	2006	2005
	($ Millions)	
Extrapolated liability for accrued basic pension benefits, beginning of year	$ 16,051	$ 14,855
Account transfers	214	117
Current period benefit cost	765	730
Net transfers from (to) other plans	-	15
Pension, termination and refund benefits	(750)	(684)
Retired member group benefits	(15)	(14)
Administration costs	(18)	(17)
Interest accrued on liability	1,138	1,049
Extrapolated liability for accrued basic pension benefits, end of year	$ 17,392	$ 16,051
Extrapolated Unfunded Actuarial Liability (UAL), December 31	$ (10)	$ (83)
Fair value of Basic Account net assets available for benefits	$ 19,401	$ 16,593
Fair value changes not reflected in extrapolated actuarial value of net assets	(2,019)	(625)
Extrapolated actuarial value of net assets available for benefits	$ 17,382	$ 15,968

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8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the LAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. INVESTMENT AND ADMINISTRATION COSTS

	2006	2005
	($ Thousands)	
Investment Management	$ 24,437	$ 21,467
Benefit Administration	17,427	16,801
Board Remuneration and Expenses	377	352
Board Secretariat Costs	343	325
Other Professional Services	760	817
	$ 43,344	$ 39,762

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by investment pooled funds.

Investment management costs of $20.5 million (2005: $12.6 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is $2.2 million (2005: $2.5 million) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional services include actuarial, insurance, audit and legal fees.

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10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and are limited to these contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer basic contributions. Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members. Effective February 1, 2008, funding for retired member group benefits cannot exceed 0.8% of pensionable salaries.

11. COMMITMENTS

The Plan participates in private placement and international real estate pools managed by bcIMC. As at December 31, 2006, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $951.7 million (2005: $643 million).

bcIMC has established a collateral account pledged as security for a future investment opportunity that will not be funded until 2009. As at December 31, 2006, $17.1 million (2005: $18.0 million) of Basic Account Canadian Bonds are being held as collateral for an investment commitment of $15.1 million.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of foreign currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

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FOR THE YEAR ENDED DECEMBER 31, 2006

12. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk
Foreign currency exposure arises from the Plan's holdings of foreign currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Market Risk
The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk
The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

This is a publication of the Municipal Pension Board of Trustees.
If you have any questions on the information
contained in this report, please contact:

Municipal Pension Board of Trustees
c/o Pension Board Secretariat
PO Box 9460
Victoria BC V8W 9V8

E-mail: MPBT@pensionsbc.ca

Phone:	Victoria	250 953-3000
	Vancouver	604 660-5366
	Toll-free in BC	1 800 668-6335

Visit our website at mpp.pensionsbc.ca

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